

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1071 - SB 1107

March 13, 2021

SUMMARY OF BILL: Creates a sales and use tax holiday from May 1, 2021 to October 31, 2021, on the sale of all food and food ingredients taxed at the rate of four percent. Requires the Commissioner of the Department of Revenue (DOR) to reimburse counties and municipalities for loss of revenue resulting from the tax exemption utilizing funding from the Reserve for Revenue Fluctuations.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$46,882,000/FY20-21/General Fund
\$234,409,800/FY21-22/General Fund

Increase State Expenditures - \$2,039,100/FY20-21/Reserve for Revenue Fluctuations
\$10,195,700/FY21-22/Reserve for Revenue Fluctuations

Increase Local Revenue - \$697,000/FY20-21
\$3,484,800/FY21-22

Assumptions:

- The exempt sales in May will be reflected in June tax collections and the exempt sales in June will be reflected in July tax collections; therefore, one month of collections will fall in FY20-21 and the remaining five months will fall in FY21-22.
- The average state food tax collections for May through October in calendar year 2020 were \$47,507,855 [(\$49,750,675 May + \$47,791,335 June + \$46,218,472 July + \$46,269,517 August + \$47,921,833 September + \$47,095,296 October) / 6 months].
- The average annual growth from each of these six months over the last three years is \$3,121,157; it is therefore estimated that the average state sales tax collections under current law from each of these months will be \$50,629,012 (\$47,507,855 + \$3,121,157).
- The state tax rate on food is 4.0 percent; the effective rate of apportionment to locals is 4.0276 percent.
- The decrease in state revenue is estimated to be \$48,589,878 [\$50,629,012 x (1 – 4.0276%)] in FY20-21 and \$242,949,390 [(\$50,629,012 x 5) x (1 – 4.0276%)] in FY21-22.
- The increase in state expenditures to reimburse local governments is estimated to be \$2,039,134 (\$50,629,012 x 4.0276%) in FY20-21 and \$10,195,670 (\$50,629,012 x 5 x 4.0276%) in FY21-22.

- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The amount spent from tax savings is estimated to be \$25,314,506 ($\$50,629,012 \times 50\%$) in FY20-21 and \$126,572,530 ($\$50,629,012 \times 5 \times 50\%$) in FY21-22.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The increase in state revenue is estimated to be \$1,707,921 [$(\$25,314,506 \times 7.0\%) - (\$25,314,506 \times 7.0\% \times 3.617\%)$] in FY20-21, and \$8,539,608 [$(\$126,572,530 \times 7.0\%) - (\$126,572,530 \times 7.0\% \times 3.617\%)$] in FY21-22.
- The increase in local revenue is estimated to be \$696,957 [$(\$25,314,506 \times 2.5\%) + (\$25,314,506 \times 7.0\% \times 3.617\%)$] in FY20-21, and \$3,484,782 [$(\$126,572,530 \times 2.5\%) + (\$126,572,530 \times 7.0\% \times 3.617\%)$].
- The net decrease in state revenue is estimated to be \$46,881,957 ($\$48,589,878 - \$1,707,921$) in FY20-21 and \$234,409,782 ($\$242,949,390 - \$8,539,608$) in FY21-22.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Bojan Savic, Interim Executive Director

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